NEWS ANALYSIS 1-1092 JULY 13, 1976
JOHN ALBERT

MOSCOW'S ECONOMIC POLICY

ANNCR:

VOA NEW ANALYST JOHN ALBERT TODAY DISCUSSES MOSCOW'S ECONOMIC POLICY OF MODERNIZING ITS INDUSTRY THROUGH VAST PURCHASES IN THE WEST.

VOICE:

IT IS NOW GENERALLY RECOGNIZED THAT IN RECENT MONTHS, INFLATION HAS HIT NOT ONLY THE WESTERN INDUSTRIAL NATIONS, BUT ALSO ALL THE COUNTRIES OF EASTERN EUROPE AND THE SOVIET UNION ITSELF -- ALTHOUGH INDIRECTLY AND WITH SOME DELAY. BY CONTROLLING CONSUMER PRICES, THE GOVERNMENTS OF EASTERN EUROPE DELAYED PASSING ON TO THEIR CONSUMERS THE ACTUAL COSTS OF THE GOODS THEY BUY. TO DO THIS, THE GOVERNMENTS HAD TO HEAVILY SUBSIDIZE PRICES, AND THIS, IT TURN, CAUSED SERIOUS BUDGET DEFICITS. A FLOURISHING BLACK MARKET ADDED TO THE INFLATIONARY TENDENCIES. THEN, LAST YEAR, THE SOVIET UNION FORCED THE EASTERN GOVERNMENTS TO PAY SHARPLY HIGHER PRICES FOR OIL. ADD ALL THIS TO THE INFLATED COSTS OF TECHNOLOGICAL GOODS BEING IMPORTED FROM THE WEST, AND THE PRESSURE ON PRICES HAS BECOME ALMOST IRRESISTABLE. THEREFORE, IT IS NOT ONLY POLAND THAT HAS TO WRESTLE WITH THE PROBLEM OF HEAVILY-SUBSIDIZED CONSUMER PRICES; HUNGARY, CZECHOSLOVAKIA AND EAST GERMANY ALSO FEEL THE IMPACT.

WHAT MAKES THE SITUATION FOR EASTERN EUROPE EVEN MORE DIFFICULT IS MOSCOW'S OWN ECONOMIC POLICY, WHICH QUITE OBVIOUSLY, PUTS MOSCOW'S INTERESTS FIRST. AT THE RECENT COMECON (COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE) CONFERENCE IN EAST BERLIN, SOVIET PREMIER KOSYGIN WARNED HIS PARTNERS

THEY MUST MAKE MORE EFFICIENT USE OF RESOURCES AND ENERGY. HE ADVOCATED LONG-TERM ECONOMIC GOALS, SPECIFIC PRODUCTION CEILINGS FOR EACH MEMBER COUNTRY AND EVEN CLOSER LINKS TO SOVIET ECONOMIC POLICY. SUCH A JOINT ECONOMIC PLAN -- STRONGLY RESISTED IN THE PAST BY ROMANIA -- WOULD, OF COURSE, RESTRICT EAST EUROPE'S EXCHANGES WITH THE WEST AND ORIENT IT MORE CLOSELY TO MOSCOW'S GOALS IN ENERGY AND ELECTRIC POWER UTILIZATION. (OPT) ALREADY BY RAISING PRICES AND RESTRICTING DELIVERY OF ITS OIL AND BY REDUCING AGRICULTURAL EXPORTS TO EASTERN EUROPE BECAUSE OF ITS OWN SHORTAGES, MOSCOW HAS PUT A SERIOUS BRAKE ON THE EAST'S INDUSTRIAL DEVELOPMENT.(END OPT)

AT THE SAME TIME, SOVIET LEADERS SEEM DETERMINED TO PUSH AHEAD WITH THEIR OWN ECONOMIC MODERNIZATION PROGRAM, DESPITE THEIR ALREADY HUGE TRADE DEFICIT. THE DEFICIT WAS CAUSED PARTLY BY HUGE GRAIN PURCHASES LAST YEAR, AND ADDITIONAL LARGE PURCHASES ARE EXPECTED THIS YEAR. THE U.S. AGRICULTURE DEPARTMENT ESTIMATES THE SOVIET TRADE DEFICIT IN THE FIRST QUARTER OF THIS YEAR WAS 1.7 THOUSAND MILLION DOLLARS. THIS MAY INDICATE A DEFICIT FOR THIS YEAR OF BETWEEN THREE AND FIVE THOUSAND MILLION DOLLARS. NEVERTHELESS, MOSCOW'S FOREIGN TRADE STILL IS EXPECTED TO GROW BECAUSE OF FURTHER WESTERN CREDITS.

(OPT) THE CONTINUED EMPHASIS ON HUGE IMPORTS OF ADVANCED TECHNOLOGY FROM THE WEST HAS HAD AN EFFECT ON THE SOVIET CONSUMER. GOODS AVAILABLE TO HIM WILL INCREASE MUCH MORE SLOWLY THIS YEAR AND IN YEARS TO COME. THE LOW GRAIN HARVEST LAST YEAR LED TO HEAVY SLAUGHTER OF LIVESTOCK, AND THIS YEAR THERE IS A GREAT DROP IN MEAT SUPPLIES, WITH SHORTAGES

REPORTED IN VARIOUS AREAS. BUT CONSIDERING THE OVERALL IMPROVEMENTS IN LIVING CONDITIONS IN RECENT YEARS, THE SOVIET CONSUMER, UNLIKE SOME OF HIS EAST EUROPEAN COUNTERPARTS, IS NOT EXPECTED TO ENGAGE IN MAJOR PROTESTS.

THE SOVIET UNION'S SOLID CREDIT RATING HAS ENABLED IT TO BORROW LARGE SUMS IN THE WEST TO FINANCE ITS INDUSTRIAL IMPORTS. BUT U.S. AGRICULTURE DEPARTMENT SPECIALISTS ARE BEGINNING TO WONDER WHETHER PERSISTENT SOVIET TRADE DEFICITS WITH NATIONS OUTSIDE THE COMMUNIST SPHERE CAN BE MAINTAINED. IF MOSCOW'S ABILITY TO BORROW SHOULD DECLINE, AND IF THE SOVIET UNION IS FORCED YEAR AFTER YEAR TO SPEND HEAVILY ON GRAIN IMPORTS, ITS ECONOMIC MODERNIZATION EFFORTS COULD BY STYMIED.

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